

SENATE FISCAL AGENCY MEMORANDUM

DATE: May 18, 2004

TO: Members of the Senate

FROM: Gary S. Olson, Director

RE: Updated State Budget Year-End Balance Estimates

On May 18, 2004, the Consensus Revenue Estimating Conference reached agreement on revisions to the FY 2003-04 and FY 2004-05 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue estimates. This memorandum provides a summary of the Senate Fiscal Agency's (SFA's) current estimates of the FY 2003-04 and FY 2004-05 GF/GP and SAF year-end balances utilizing these revised revenue estimates and enacted and recommended appropriations along with the recommended tax policy changes outlined by Governor Granholm in her FY 2004-05 budget recommendation.

FY 2003-04 Year-End Balance

During December 2003, the Governor and the Legislature implemented a comprehensive plan to eliminate projected deficits in the FY 2003-04 GF/GP and SAF budgets. This plan consisted of a combination of appropriation reductions and revenue adjustments. This budget balancing plan was based on the consensus revenue estimates in place at the time the plan was enacted. A comparison of the current FY 2003-04 GF/GP and SAF revenue estimates along with enacted and projected FY 2003-04 appropriations leads to revised estimates of the GF/GP and SAF year-end balances. The SFA is now estimating that the FY 2003-04 GF/GP budget is in deficit by \$101.5 million and the FY 2003-04 SAF budget is in deficit by \$54.1 million. These deficits will have to be dealt with by the Governor and the Legislature in the weeks ahead.

Table 1 provides a summary of the SFA estimate of a \$101.5 million FY 2003-04 GF/GP budget deficit. The revised GF/GP consensus estimate represents an \$8.9 million increase from the January 2004 consensus revenue estimate. Other changes on the revenue side of the FY 2003-04 GF/GP budget ledger include a \$40.8 million downward revision in the revenue to be generated from the driver responsibility fee legislation (P.A. 165 of 2003) and a \$14.5 million downward revision in the revenue to be generated from the sale of the former Northville State Hospital. On the expenditure side of the FY 2003-04 GF/GP budget ledger it is now clear that expenditures on the State Medicaid program will exceed the current appropriated level by \$116.2 million. Therefore, absent any change in Medicaid spending policies, a supplemental appropriation of this amount will have to be enacted to provide the spending authorization necessary for the balance of the fiscal year. Also on the expenditure side of the budget ledger the SFA is now estimating that FY 2003-04 GF/GP appropriation lapses will total \$75.0 million. This projected FY 2003-04 GF/GP budget deficit of \$101.5 million equals 1.1% of projected year-end expenditures.

Table 1
FY 2003-04
General Fund/General Purpose
Revenues, Expenditures and Year-End Balance
(millions of dollars)

	May 2004 Consensus
Revenues:	
Beginning Balance	\$ 174.0
Ongoing Revenue Estimate	7,791.6
Other Revenue Adjustments:	
Income Tax Rate Pause (PA 239 of 2003)	77.0
Single Business Tax Health Care Base Phase-Out (PA 240 of 2003)	(2.2)
Transfer from Employment Security Fund (PA 84 of 2003)	10.0
Revenue Sharing Reductions	282.5
Sale of Property (Detroit Plaza Building)	12.1
Sale of Property (Northville State Hospital)	50.0
Sale of Property (Macomb Center, SB 874)	3.0
Unrestricted Federal Aid	169.0
Driver Responsibility Legislation (PA 165 of 2003)	24.2
Drivers License Fee Legislation (PA 152 of 2003)	25.9
Enhanced Enforcement of Delinquent Taxes	55.1
Escheats Law Revision	15.0
Executive Order 2003-23 (Work Project Lapse to GF/GP)	31.0
Executive Order 2003-23 (Restricted Revenue Lapse to GF/GP)	69.9
Teacher Certification Fee Revenue to GF/GP	1.0
Lapse Prior Year Airport Improvement Funds (PA 237 of 2003)	4.1
Tobacco Tax Increase Impact on FY 2003-04	11.8
Total Other Revenue Adjustments	\$ 839.4
Total Estimated Revenue	\$8,805.0
Expenditures:	
Enacted Appropriations	\$8,886.8
Supplemental Appropriations:	
Supplemental Appropriations (PA 237 of 2003)	81.4
Supplemental Appropriations GF/GP to SAF (PA 236 of 2003)	45.6
Executive Order 2003-23 (GF/GP Reductions)	(200.9)
Higher Education Supplemental (PA 237 of 2003)	52.4
Projected Medicaid Supplemental Appropriation	116.2
Projected Appropriation Lapses	(75.0)
Total Estimated Expenditures	\$8,906.5
Projected Year-End Balance	\$ (101.5)

Table 2 provides a summary of the SFA estimate of a \$54.1 million FY 2003-04 SAF budget deficit. This deficit results from a \$49.1 million downward revision in SAF revenues from the January 2004 consensus revenue estimate and the assumption of \$47.8 million in year-end appropriation lapses. These lapses are a result of changes in the number of pupils funded, changes in the estimates of local property taxes levied for K-12 education, and spending reductions mandated by the Legislature. Pursuant to provisions of the State School Aid Act this

\$54.1 million projected budget deficit will be eliminated by a \$31 per pupil reduction in the FY 2003-04 payments to local school districts, intermediate school districts, and public school academies. This \$31-per-pupil reduction would not be necessary if the Governor and the Legislature develop an alternative approach to eliminate the projected budget deficit.

Table 2
FY 2003-04
School Aid Fund
Revenues, Expenditures and Year-End Balance
(millions of dollars)

	May 2004 Consensus
Revenues:	
Beginning Balance	\$ 113.7
Ongoing Revenue Estimate	10,535.2
Other Revenue Adjustments:	
General Fund/General Purpose Grant	282.1
General Fund/General Purpose Grant (PA 236 of 2003)	45.6
Personal Property Tax Amnesty	1.2
Enhanced Enforcement of Delinquent Taxes	<u>28.6</u>
Total Other Revenue Adjustments	\$ 357.5
Federal Aid	1,316.7
Total Estimated Revenue	\$12,323.1
Expenditures:	
Enacted Appropriation (PA 521 of 2002)	\$12,696.9
Supplemental Appropriations (PA 158 of 2003)	(92.8)
Supplemental Appropriations (PA 236 of 2003)	2.7
Homestead Exemption Audit (PA 105 of 2003)	(50.7)
School Aid Proration Reduction (\$74 per pupil)	(131.1)
Projected Appropriation Lapses	<u>(47.8)</u>
Total Estimated Expenditures	\$12,377.2
Projected Year-End Balance	\$ (54.1)

FY 2004-05 Year-End Balance

On February 12, 2004, Governor Granholm presented to the Legislature her recommendations for FY 2004-05 revenues and appropriations for the GF/GP and SAF budgets. The Legislature is currently in the process of reviewing and acting on these recommendations. The Governor's budget recommendations were based on the January 2004 consensus revenue estimates. A comparison of the revised consensus revenue estimates with the Governor's recommendations for appropriations and tax policies leads to a projected \$134.1 million FY 2004-05 GF/GP budget deficit and a \$19.6 million FY 2004-05 SAF budget deficit.

Table 3 provides a summary of the SFA estimate of a \$134.1 million FY 2004-05 GF/GP budget deficit. This estimate includes a \$33.6 million increase in the consensus revenue estimate. This increase in the consensus revenue estimate is offset by a \$48.4 million downward revision

in the estimated amount of revenue to be generated from the driver's responsibility fee legislation and a \$15.0 million downward reduction in the revenue generated from a change in interfund borrowing costs. On the expenditure side of the FY 2004-05 budget ledger, the SFA is now estimating that the State Medicaid budget will need a \$101.7 million GF/GP funding increase to support the policies assumed in the Governor's budget. The estimate of a \$134.1 million FY 2004-05 GF/GP budget deficit does assume that the Legislature enacts the tax policy changes included in the Governor's overall budget recommendation. Failure to approve the cigarette, estate, and liquor tax changes included in the Governor's budget would increase this projected budget deficit by \$390.8 million unless appropriations are reduced below a level recommended by the Governor or unless alternative new revenue proposals are enacted.

Table 3
FY 2004-05
General Fund/General Purpose
Revenues, Expenditures and Year-End Balance
(millions of dollars)

	May 2004 Consensus
Revenues:	
Beginning Balance.....	\$ 0.0
Ongoing Estimated Revenues.....	7,856.3
Enacted Revenue Adjustments:	
Enhanced Tax Enforcement Revenue.....	85.1
Driver Responsibility Legislation.....	73.1
Driver License Fee Legislation	25.0
Escheats Law Change.....	15.0
Subtotal Enacted Revenue Adjustments	\$ 198.2
Proposed Revenue Adjustments:	
Increase Liquor Markup to 74%.....	31.8
Revenue Sharing Freeze.....	348.5
Suspend County Revenue Sharing Payments	182.8
Adjust Interfund Borrowing Costs	5.0
Subtotal Proposed Revenue Adjustments.....	\$ 568.1
Total Estimated Revenue	\$8,622.6
Expenditures:	
Governor's Appropriation Recommendation	\$8,655.0
Projected Medicaid Base Funding Shortfall	101.7
Total Estimated Expenditures	\$8,756.7
Projected Year-End Balance.....	\$ (134.1)

Table 4 provides a summary of the SFA estimate of a \$19.6 million FY 2004-05 SAF budget deficit. This deficit is the result of a \$38.2 million downward revision in the consensus estimate of SAF revenues and a change in the projected number of pupils to be funded during the school year. This projected deficit equals 0.2% of recommended FY 2004-05 SAF appropriations.

Table 4
FY 2004-05
School Aid Fund Budget
Revenues, Expenditures and Year-End Balance
(millions of dollars)

	May 2004 Consensus
Revenues:	
Beginning Balance	\$ 0.0
Ongoing Estimated Restricted Revenues	10,960.4
<u>Other Revenue Adjustments:</u>	
GF/GP Grant.....	131.8
Federal Aid	1,314.4
Enhanced Tax Enforcement Revenue.....	35.5
<u>Proposed Revenue Adjustments:</u>	
Liquor Markup Increase	1.7
Payment in Lieu of Taxes	(2.0)
Subtotal Other Revenue Adjustments	\$1,481.4
Total Estimated Revenue	\$12,441.8
Expenditures:	
Governor's Recommendation	\$12,479.9
Projected Appropriation Lapses	(18.5)
Total Estimated Expenditures	\$12,461.4
Projected Year-End Balance.....	\$ (19.6)

/kjh